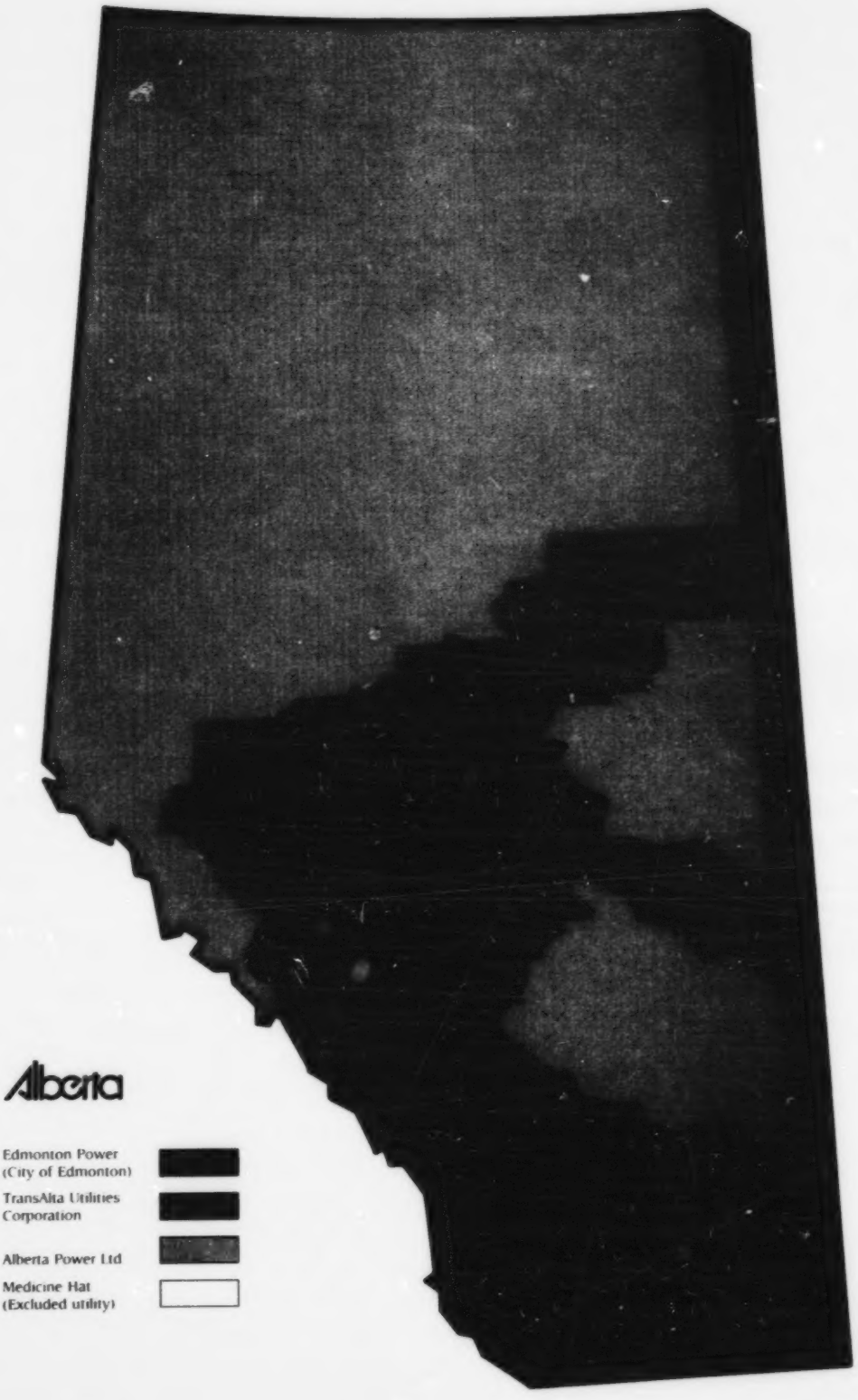
ALBERTA
ELECTRIC
ENERGY
MARKETING
AGENCY

ANNUAL REPORT

1990-91

Electric Utility Franchise Areas



91-05794/

ALBERTA ELECTRIC ENERGY MARKETING AGENCY*

*Operated under the jurisdiction of the Department of Energy

Honourable Rick Orman
Minister

Fred J. Dumont, O.C.
Chairman

ANNUAL REPORT

1990-91

Alberta
ENERGY

Office of the Minister

228 Legislature Building, Edmonton, Alberta, Canada T5K 2B6 403/427-3740

The Honourable Dr. David J. Carter
Speaker, Legislative Assembly of Alberta

Sir:

It is my pleasure to submit the Annual Report of the Alberta Electric Energy Marketing Agency for the year ended March 31, 1991.

Respectfully submitted,

Rick Orman
Minister of Energy

ALBERTA
ELECTRIC
ENERGY
MARKETING
AGENCY

OFFICES OF THE CHAIRMAN

Suite 700, Princeton Place 403/422-1722
10339 - 124 Street, Edmonton, Alberta T5N 3W1

Woodward Tower 403/381-5384
400 - 4th Avenue, Lethbridge, Alberta T1J 4E1

The Honourable Rick Orman
Minister of Energy

Sir:

It is with pleasure that I submit a report covering the operations of the Alberta Electric Energy Marketing Agency for the fiscal year ended March 31, 1991.

Yours respectfully,

Fred J. Dumont, O.C.
Chairman

AN AGENCY OF THE GOVERNMENT OF ALBERTA

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Preface

The Alberta Electric Energy Marketing Agency (AEEMA) is an administrative body, established in 1982 under the authority of the Electric Energy Marketing Act, Chapter E-4.1, Statutes of Alberta, 1981. The Agency manages the purchasing and selling of the electricity produced by the province's three large franchised generators of electricity, namely: Alberta Power Ltd., the City of Edmonton (Edmonton Power), and TransAlta Utilities Corporation, herein referred to as "the utilities". **The price is set by the Public Utilities Board based only on the costs of generation and transmission incurred by the utilities.** The Agency pools these costs and resells the electricity to these same utilities at a levelized price.

The work of the Agency is very focussed on the concept of levelization and is not involved in setting final rates to consumers. Consumer rates continue to be set by those municipal governments which operate their own distribution systems. As well, the investor-owned franchised utilities that retail electricity to their direct customers continue to apply the rates set by the Public Utilities Board (PUB).

For purposes of the Utility Companies Income Tax Rebates Act only, the Agency has been designated as a customer of the three generating utilities. Under the Utility Companies Income Tax Rebates Regulation, the rebate for the Agency is the total payment passed on by the utilities to the Agency. In Alberta, this means that 95 percent of the federal income tax paid by the utilities was flowed back to the utilities for the benefit of their customers.

The purpose of this report is to inform the general public of the transactions that have taken place during the fiscal year April 1, 1990 to March 31, 1991, as well as to satisfy the requirements of the Electric Energy Marketing Act, Chapter E-4.1, Part I, Section 8. The report includes AEEMA's audited financial statements called for under Section 77 of the Financial Administration Act, and other information required by the Lieutenant Governor in Council.

Worthy of note is the fact that the Agency's total cost of purchasing 37.6 billion kWh of electric power from the utilities was 1.3 billion dollars. The costs and amounts of purchases from each utility are shown in Tables 1 and 2 and Figures 1 and 2.

The costs to the utilities of generating and transmitting the electricity were blended (pooled) by the Agency and the electric power was sold to the utilities at a levelized price for each consumer group. This procedure is discussed in greater detail in the section on pooling in this report. As part of the same process Calgary, Lethbridge and Red Deer were reimbursed for transmission facility costs as detailed in the General Regulation Section 15. These costs include compensation for energy and demand charge losses.

TABLE 1

Alberta Electric Energy Marketing Agency Purchase of Electric Energy from Utilities

For the Year Ended March 31, 1991 (After Income Tax Rebate)

	Alberta Power Ltd.	Edmonton Power	TransAlta Utilities	Cities[a]	Total
April 1990	$ 26 918 000	$ 18 047 997	$ 57 811 501	$ 2 618 941	$ 105 396 439
May 1990	26 918 000	18 047 997	57 811 501	2 618 941	105 396 439
June 1990	26 918 000	18 047 997	57 811 501	2 618 941	105 396 439
July 1990	26 918 000	18 047 997	57 811 501	2 618 941	105 396 439
August 1990	26 918 000	18 047 997	57 811 501	2 618 941	105 396 439
September 1990	26 918 000	18 047 997	57 811 501	2 618 941	105 396 439
October 1990	26 918 000	18 047 997	57 811 501	2 618 941	105 396 439
November 1990	26 918 000	18 047 997	57 811 501	2 618 941	105 396 439
December 1990	26 918 000	18 047 997	57 811 489	2 618 941	105 396 427
January 1991	29 870 333	24 711 272	58 057 749	2 828 191	115 467 545
February 1991	29 870 333	24 711 272	58 057 749	2 828 191	115 467 545
March 1991	29 870 333	24 711 272	58 057 749	2 828 191	115 467 545
TOTAL	$ 331 872 999	$ 236 565 789	$ 694 476 744	$ 32 055 042	$ 1 294 970 574[b]

[a] *These figures represent the value of compensation to municipalities in the transfer pool as addressed in the General Regulation Section 15.*

[b] *This total is a gross total. The net total is $1 312 649 778, which includes adjustments made for April to December 1988 further to PUB Order E89115 dated December 29, 1989, and adjustments made for January to March 1989 further to PUB Order E90090 dated December 31, 1990. The net total also reflects the provincial government decision to cease rebating provincial corporate income taxes paid by privately owned utilities effective for their 1990 tax year.*

FIGURE 1
Purchase of Electric Energy
By AEEMA From Utilities by Month

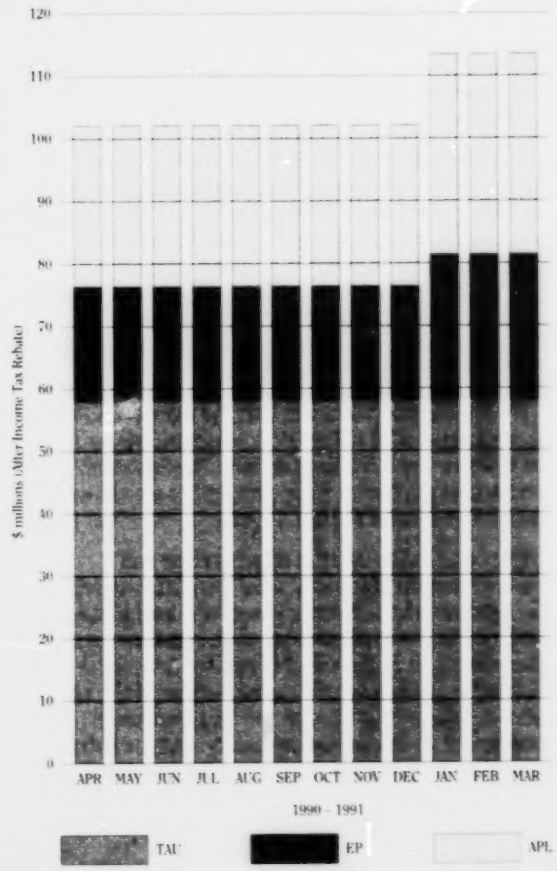


FIGURE 2
Purchase of Electric Energy
By AEEMA From Utilities by Month

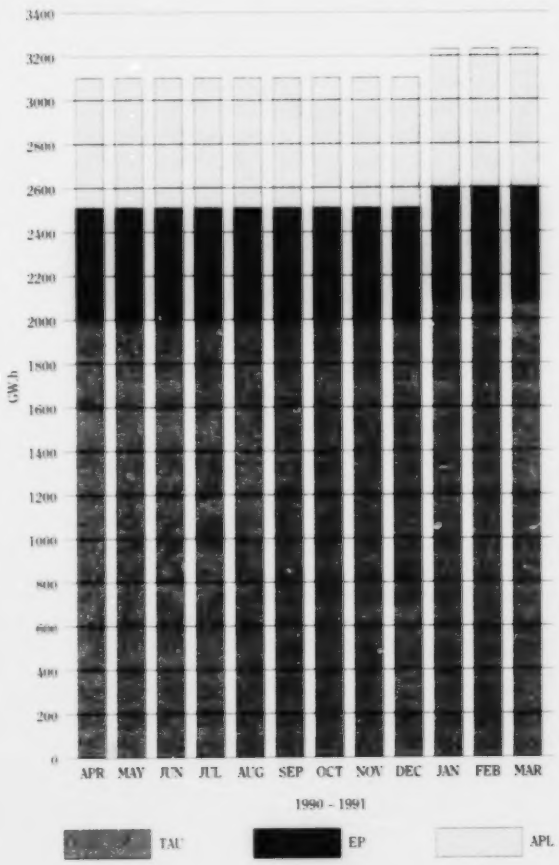


TABLE 2

Alberta Electric Energy Marketing Agency Energy Purchased from Utilities

For the Year Ended March 31, 1991 (in GW.h)[a]

	Alberta Power Ltd.	Edmonton Power	TransAlta Utilities	Cities	Total
April 1990	588.3893	511.0308	2 003.4628	0.0000	3 102.8829
May 1990	588.3893	511.0308	2 003.4628	0.0000	3 102.8829
June1990	588.3893	511.0308	2 003.4628	0.0000	3 102.8829
July 1990	588.3893	511.0308	2 003.4628	0.0000	3 102.8829
August 1990	588.3893	511.0308	2 003.4628	0.0000	3 102.8829
September 1990	588.3893	511.0308	2 003.4628	0.0000	3 102.8829
October 1990	588.3893	511.0308	2 003.4628	0.0000	3 102.8829
November 1990	588.3893	511.0308	2 003.4628	0.0000	3 102.8829
December 1990	588.3893	511.0308	2 003.4628	0.0000	3 102.8829
January 1991	627.8633	503.6008	2 091.3990	0.0000	3 222.8631
February 1991	627.8633	503.6008	2 091.3990	0.0000	3 222.8631
March 1991	627.8633	503.6008	2 091.3990	0.0000	3 222.8631
TOTAL	7 179.0936	6 110.0796	24 305.3622	0.0000	37 594.5354

[a] *GW.h (gigawatt hour) - a unit of measurement of electricity equivalent to 1 million kilowatt hours.*

NOTE: This table reflects numbers from PUB Orders for the years 1990 and 1991.

These costs amounted to a combined total rounded amount of 32.1 million dollars as shown in Table 1. As the City of Medicine Hat owns and operates its natural gas and electric power systems, it has been an excluded franchised utility since the establishment of AEEMA.

The Agency's offices are located in Edmonton and Lethbridge. Both perform administrative and reception functions, as well as serving as offices of the Chairman.

Costs incurred in the administration of the Agency are borne by the General Revenue Fund. The total yearly operating expenses are shown in Table 3. While the recorded yearly expenses have increased slightly, the increase largely results from salary settlements.

Since January, 1990 Ministerial responsibility for the Agency has rested with the Honourable Rick Orman, Minister of Energy.

Fred J. Dumont has been the Chairman since July 2, 1987.

TABLE 3

Costs of Administration of Agency
To March 31 of each year

1990	1991
$ 340 870	$ 354 662[a]

[a] *Refer to Schedule 1 in the FINANCIAL STATEMENTS*

Mandate

Since its establishment in 1982 the Agency's sole objective has been to reduce regional electrical rate disparities by equalizing generation and transmission (upstream) costs province-wide. The mechanism used to effect this reduction in rate differences across the province is structured to take advantage of the economies of scale which would result from having a single generation and transmission system for the province. This is accomplished by averaging the upstream costs of all franchised generating and transmission systems, except the one owned by the City of Medicine Hat. At the same time, this mechanism allows for competition among the utilities which results in higher efficiency while maintaining the independence and integrity of the province's system of investor and municipal government-owned generating utilities. The mechanism also leaves in place the process of rate-setting by the Public Utilities Board and Municipal Councils, both of which provide for public input and local autonomy.

Pooling Process

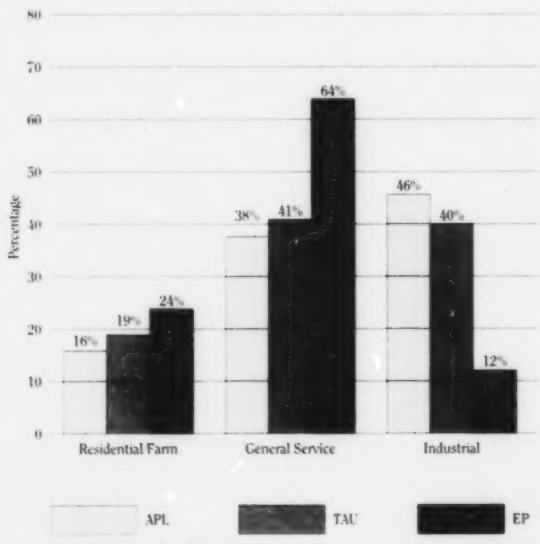
Pooling (averaging or blending) of costs associated with generation and transmission of electricity (wholesale level) by the utilities accomplishes two major goals. First, pooling results in levelization of electric energy generation and transmission costs province-wide. These costs make up about 80 percent of what the retail customer pays for power. The second goal establishes the need for a great degree of cooperation and communication among utilities in order to make the single generation and transmission concept work, which in turn has led to a relatively high degree of economic dispatch within these systems.

The determination of the blended cost of electric energy to the point where distribution by the utilities takes place, is the Agency's key administrative task. The first step is the applications to the Public Utilities Board (PUB) by the utilities to fix the price at which each utility will sell electricity to the Agency. Using the PUB decisions taken on these applications, the Agency pools these numbers to arrive at a pooled cost. This is the cost that the three utilities have to pay to buy back the electricity. The pooling and re-sale figures are determined for the three consumer groups, namely: Residential, General Services, and Large Industrial as defined in the General Regulation. A comparison of consumer mix for each utility is shown in Figure 3.

As part of this process Calgary, Lethbridge and Red Deer are reimbursed for the transmission facilities which they own to the point where pooled power is purchased. Table 4 shows comparative dollar amounts reimbursed to these municipalities.

In 1990-91 pooling resulted in the Agency making payments to Alberta Power, Edmonton Power and three municipalities, while TransAlta made payments into the Agency pool as shown in Table 5.

FIGURE 3
Comparison of Utility Consumer Mix
(Breakdown of Energy sold to AEEMA)



Source: Alberta Department of Energy

TABLE 4

Pooling Compensation to Cities Which Own In-Boundary Transmission Facilities
(in millions of dollars rounded to one decimal point)

	1990	1991
Calgary	$ 28.0	$ 30.3
Lethbridge	$ 2.4	$ 2.5
Red Deer	$ 1.0	$ 1.1

TABLE 5

Alberta Electric Energy Marketing Agency
Monthly Transfer Payments To/From Direct and Indirect Customers of the Three Utilities Resulting from the Pooling of Upstream Costs
For the Year Ended March 31, 1991

	Alberta Power Ltd.	Edmonton Power	TransAlta Utilities	Cities[1] (TAU Indirect)
April 1990	$ 6 925 164	$ (946 715)	$ (8 597 390)	$ 2 618 941
May 1990	6 925 164	(946 715)	(8 597 390)	2 618 941
June 1990	6 925 164	(946 715)	(8 597 390)	2 618 941
July 1990	6 925 164	(946 715)	(8 597 390)	2 618 941
August 1990	6 925 164	(946 715)	(8 597 390)	2 618 941
September 1990	6 925 164	(946 715)	(8 597 390)	2 618 941
October 1990	6 925 164	(946 715)	(8 597 390)	2 618 941
November 1990	6 925 164	(946 715)	(8 597 390)	2 618 941
December 1990	6 925 167	(946 714)	(8 597 394)	2 618 941
January 1991	7 434 340	4 488 224	(14 750 755)	2 828 191
February 1991	7 434 340	4 488 224	(14 750 755)	2 828 191
March 1991	7 434 340	4 488 224	(14 750 755)	2 828 191
TOTAL	$ 84 629 499	$ 4 944 238	$ (121 628 779)	$ 32 055 042

[1] *Calgary, Red Deer and Lethbridge own and operate transmission (upstream) facilities. Their upstream costs are also pooled province-wide.*

Note: Further to PUB Order E90090 an over-shielding amount of $135 852 was returned to the General Revenue Fund during the period January to March 1991.

Summary

The Alberta Electric Energy Marketing Agency is to a large extent meeting its objective of reducing regional rate disparities. As illustrated in Figures 4 and 5, the rates for a kilowatt hour of electricity charged by the utilities in 1991 are within 2.2 cents or less of each other. The equalized (pooled) cost determined by the Agency is also shown. It is important to reiterate that the upstream costs (generation and transmission), which make up as much as 80 percent of the total operating costs for utilities, are the only costs taken into consideration in arriving at the "pooled cost out of AEEMA". The remaining 20 percent of the costs are related to distribution and to the revenue-to-cost rate design which each utility chooses to apply to specific customer groups. The inclusion of this aspect of utility operations in the pooling process would have a minimal effect on consumer rates.

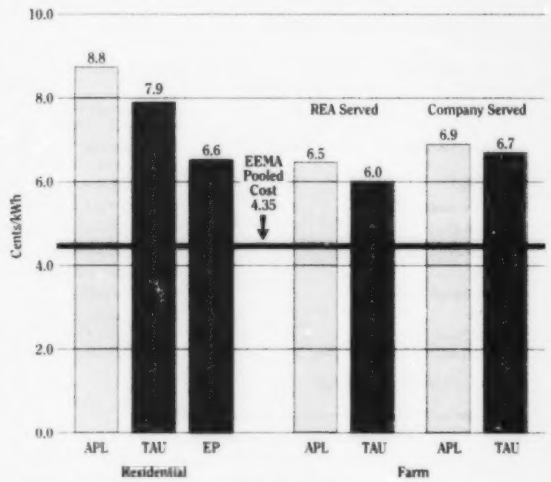
The rate differences that remain are no greater than in Canadian provinces with a nationalized single generation and transmission utility. Table 6 provides a Canada-wide comparison of a 600-kWh utility bill as of January 1, 1991. There is a limitation on the figures in Table 6 as the costs per kWh vary within and among provinces depending on many factors. Various population densities, different consumer rate designs in use, source of power to generate the electricity, and many other factors have not been measured in terms of degree of impact each or a combination of them would have had on cost determination. Therefore, the monthly charges average for each province cannot be used to reflect accurately the monthly cost for 600 kWh of electricity used by any one consumer anywhere in Canada. The figures provide the average of the range of costs in each province, and in a broad sense show the differences in costs to the general consumer of 600 kWh of electricity per month among the provinces. The Yukon and Northwest Territories are not included, as both are in many ways atypical of other Canadian jurisdictions. Alberta was the third-lowest as of January 1991 but still with rates 20% lower than rates in Ontario.

Through the application of the pooling mechanism, a measure of equalization of electric energy costs among service areas of the province has been achieved. The reported upstream costs must stand the prudency test applied by the Public Utilities Board when a general rate application is being heard by the PUB. In addition, public input before the PUB is provided and encouraged through the intervention process which provides for the kinds of checks and balances often lacking in a provincialized electric utility system. The mechanism of pooling, as opposed to provincialization, preserves the integrity of Alberta's system of investor-/and municipality-owned generating utilities.

Pooling resulted in the net transfer of payments between utility companies and for compensation to those municipalities that own transmission facilities (Tables 7 and 8).

FIGURE 4

Comparisons of Average Residential/Farm Consumer Bills per kWh Based on Rates effective March 31, 1991



Assumes Average Monthly Usage: residential – 600 kWh
farm – 1400 kWh; 7.5 kVA

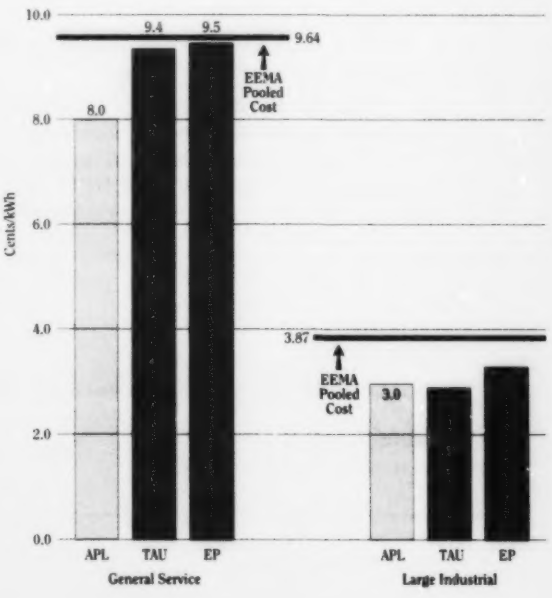
Note: Rates include applicable riders and income tax rebate. Residential bills include GST.

Source: Alberta Department of Energy

FIGURE 5

Comparisons of General Service and Large Industrial Consumer Rates

Based on Rates effective March 31, 1991



Based on Monthly Usage: General Service – 10 kW Demand and 25% Load Factor
Large Industrial – 5000 kW Demand and 80% Load Factor at 25kV

Notes: a) Bills include all applicable riders and income tax rebate except the GST.
b) Average cost varies depending on demand and load.
c) The costs should not be considered as the average cost.

Source: Alberta Department of Energy

TABLE 6

Canada-Wide Comparison of Residential Electric Bills

For 600 kWh as of January 1, 1991[a]

Province	Average (rounded)[b]	Comment
Alberta	$43	Investor-owned utilities serve the majority of Albertans with the cities of Edmonton and Medicine Hat residents served by utilities owned by the respective municipalities
British Columbia	39	Mix of ownership. B.C. Hydro is government-owned serving 90% of the population while Cominco Ltd. and its subsidiary West Kootenay Power and Light Co. who are investor-owned serve the remaining 10%
Manitoba	48	Government-owned (Crown corporation)
New Brunswick	51	Government-owned (Crown corporation)
Newfoundland	55	Mix of ownership. Newfoundland & Labrador Hydro is government-owned. Newfoundland Light and Power Co. is investor-owned
Nova Scotia	55	Government-owned (Crown corporation)
Ontario	54	Government-owned (Crown corporation)
Prince Edward Island	69	Investor-owned utility
Quebec	40	Government-owned (Crown corporation)
Saskatchewan	47	Government-owned (Crown corporation)

[a] *Source: Department of Energy.*

[b] *See text for limitation on interpretation of these numbers.*

TABLE 7

Alberta Electric Energy Marketing Agency
Yearly Net Transfer Payments To/From Direct and Indirect Customers of the Three Utilities Resulting from the Pooling of Upstream Costs

1987 to March 31, 1991 by Calendar Year (Net)

	Alberta Power Ltd	Edmonton Power	TransAlta Utilities	Cities[a] (TAU Indirect)
1987	$ 64 158 175	$ (37 031 562)	$ (26 174 859)	$ 30 651 456
1988	91 174 164	(39 817 745)	(58 100 228)	31 223 304
1989[b]	101 675 542	(42 318 035)	(78 973 730)	30 556 296
1990	83 101 971	(11 360 579)	(103 168 684)	31 427 292
1991 (Jan.-Mar.)	22 303 020	13 464 672	(44 252 265)	8 484 573

[a] *These figures represent the value reimbursed for municipally owned transmission facilities as addressed in the General Regulation Section 15. Calgary, Red Deer and Lethbridge own and operate transmission (upstream) facilities. Their upstream costs are also pooled province wide.*

[b] *Includes adjustments made for January to March 1989 further to PUB Order E90090 dated December 31, 1990.*

TABLE 8

Pooling Disbursements

1987 to March 31, 1991 by Calendar Year

	Alberta Power Ltd.	Edmonton Power	TransAlta Utilities	Cities	Total
1987	$ 64 158 175	$ 0	$ 0	$ 30 651 456	$ 94 809 631
1988	91 174 164	0	0	31 223 304	122 397 468
1989[a]	101 675 542	0	0	30 556 296	132 231 838
1990	83 101 971	0	0	31 427 292	114 529 263
1991 (Jan.-Mar.)	22 303 020	13 464 672	0	8 484 573	44 252 265

[a] *The 1989 pooling disbursement to Alberta Power Ltd. include adjustments made for January to March 1989 further to PUB Order E90090 dated December 31,1990.*

ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL

Auditor's Report

To the Minister of Energy

I have audited the balance sheet of the Alberta Electric Energy Marketing Agency as at March 31, 1991 and the statements of revenue and expenditure and capital surplus for the year then ended. These financial statements are the responsibility of the Agency's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Agency as at March 31, 1991 and the results of its operations and the changes in its financial position for the year then ended in accordance with the disclosed basis of accounting as described in Note 2 to the financial statements.

Donald D. Salmon

FCA
Auditor General

Edmonton, Alberta
April 30, 1991

BALANCE SHEET

As at March 31, 1991

	1991	1990
ASSETS		
Current:		
Cash	$ 27 374	$ 24 457
Accounts receivable	1 034	500
	28 408	24 957
Fixed:		
Equipment, at cost	18 452	40 432
	$ 46 860	$ 65 389
LIABILITIES AND SURPLUS		
Current:		
Accounts payable	$ 3 070	$ 10 383
Due to the Province of Alberta	25 338	14 574
	28 408	24 957
Capital Surplus	18 452	40 432
	$ 46 860	$ 65 389

The accompanying notes are part of these financial statements.

STATEMENT OF REVENUE AND EXPENDITURE

For the Year Ended March 31, 1991

	1991	1990
REVENUE		
Sale of electric energy	$ 1 312 694 778	$ 1 009 541 914
EXPENDITURE		
Purchase of electric energy	1 312 694 778	1 009 541 914
Shielding grants (Note 5)	(135 852)	2 857 714
Operating expenses, Schedule 1	354 662	340 870
	1 312 913 588	1 012 740 498
Excess of expenditure over revenue	$ 218 810	$ 3 198 584
Contribution by the Province of Alberta	$ 218 810	$ 3 198 584

STATEMENT OF CAPITAL SURPLUS

For the Year Ended March 31, 1991

	1991	1990
Balance at beginning of year	$ 40 432	$ 31 923
Add: Purchases of equipment	–	8 509
	40 432	40 432
Less: Disposal of equipment	21 980	–
Balance at end of year	$ 18 452	$ 40 432

NOTES TO THE FINANCIAL STATEMENTS

March 31, 1991

Note 1 Authority

The Alberta Electric Energy Marketing Agency operates under the authority of the Electric Energy Marketing Act, Chapter E-4.1, Statutes of Alberta 1981, as amended. On April 11, 1991, the Minister of Energy announced that responsibility for administration of Agency operations will be transferred to the Department of Energy effective July 2, 1991.

Note 2 Significant Accounting Policies and Reporting Practices

(a) General:
These financial Statements have been prepared in accordance with generally accepted accounting principles except that purchases of fixed assets are charged to operations in the year of acquisition. Notwithstanding this policy, however, the balance sheet also shows, for information purposes, the cumulative amount of such expenditures in respect of all fixed assets presently owned with a corresponding credit shown as capital surplus.

(b) Changes in Financial Position:
A statement of changes in financial position is not provided as disclosure in these financial statements is considered to be adequate.

Note 3 Administration Costs

Office accommodation and certain other overhead costs incurred in the administration of the Agency have been borne by the General Revenue Fund and are not reflected in these financial statements.

Note 4 Approval by the Public Utilities Board

The price at which electric energy is sold to the Alberta Electric Energy Marketing Agency is subject to Public Utilities Board approval. Any subsequent price adjustments by the Board, received by the Agency on or before December 31 in respect of a prior year, are reflected in the following calendar year.

Note 5 Shielding Grants

The shielding grant program ceased effective May 31, 1989. However, the price at which electric energy was sold to the agency for the 1989 calendar year was revised by the Public Utilities Board on December 31, 1990 resulting in a recovery of shielding grants paid prior to May 31, 1989.

Note 6 Approval of Financial Statements

These financial statements were approved by management.

SCHEDULE 1

SCHEDULE OF OPERATING EXPENSES

For the Year Ended March 31, 1991

	1991	1990
Salaries and wages	$ 282 894	$ 261 828
Employee benefits	37 078	33 287
Travel and hospitality	14 777	10 253
Legal, consulting and business services	11 719	17 961
Equipment rental	4 208	3 811
Printing, stationery and supplies	3 267	3 517
Freight, postage and telephone	719	770
Purchases of equipment	–	8 509
Repairs and maintenance	–	934
	$ 354 662	$ 340 870